



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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For Immediate Release

September 23, 2003

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**State Auditor Vaudt Addresses the Fiscal Year 2003 Deficit.
This is a Critical Time in Iowa's Financial Future.**

Recently there has been discussion among the leadership of the Executive and Legislative branches about the possibility of a special legislative session to address the General Fund deficit for Fiscal Year 2003. One reason put forth in support of a special legislative session is to address the deficit so the State Auditor's Office can complete the State's June 30, 2003 audit. State Auditor Dave Vaudt, however, reported today, "We do not believe a special legislative session is required for the Auditor's Office to complete the June 30, 2003 audit of the State's Comprehensive Annual Financial Report (CAFR)."

Vaudt did, however, voice concern about the Revenue Estimating Conference (REC) process that led to the deficit. "Actual accrual revenues have fallen short of REC estimates in two of the last three years, resulting in General Fund deficits." Vaudt pledged, "The Auditor's Office will lead a study of the REC's process and evaluate what happened. Our goal will be to make recommendations for improving this process."

Auditor Vaudt also emphasized that now is a critical time in Iowa's financial future. Over the past five fiscal years, Iowa has depleted a General Fund cash surplus of \$411 million. In addition, during that same time the General Fund has accumulated borrowings from other funds totaling \$437 million that are statutorily required to be repaid. That doesn't include another \$564 million the General Fund has spent from other programs where repayment has not been addressed. That means Iowa has spent an alarming \$1.4 billion more than its revenue stream during the last five years. Vaudt warned, "When you are digging a hole and you can no longer see out, you had better stop digging." It will take real discipline to get out of this financial position. We have reduced our General Fund cash balances so low that it begs the question, "Can we cash flow in Fiscal Year 2004 without borrowing?"

Auditor Vaudt concluded by saying, "Now is the time to focus on rebuilding Iowa's financial condition. It is critical that we set specific financial goals, and then establish timelines for achieving those goals. That may mean we need to consider revising the expenditure limitation from its current 99% limitation to 98% or 97%. We can no longer postpone the difficult decisions."



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Honorable Thomas J. Vilsack
Governor of Iowa
State Capitol Building
Des Moines, Iowa 50319

Dear Governor Vilsack:

Recently there has been discussion among the leadership of the Executive and Legislative branches about the possibility of a special legislative session to address the General Fund deficit arising from the unanticipated shortfall in accrued revenues for the fiscal year ended June 30, 2003. One of the reasons put forth in support of a special legislative session is to take action on the General Fund deficit so the Auditor's Office can complete the audit on the state's June 30, 2003 Comprehensive Annual Financial Report (CAFR) by the December 31, 2003 deadline. My staff and I have reviewed whether our audit opinion and the CAFR presentation would be affected by any action on the deficit which could be taken in a special legislative session.

Based upon our review, we do not believe a special legislative session would affect, in any significant manner, the disclosures in the CAFR or our audit opinion thereon. The fact that a deficit occurred because authorized expenditures exceeded actual revenues is a budget compliance violation that must be reported in the CAFR, regardless of any legislative action resulting from a special legislative session. Any action taken by the Legislature through a special session to address that deficit does not remove the GAAP requirement to disclose the budget violation. This financial statement treatment would be similar to the treatment of the General Fund deficit that occurred in fiscal year 2001.

Consequently, I want to inform you that we do not believe a special legislative session is required for the Auditor's Office to complete the June 30, 2003 CAFR audit by December 31, 2003.

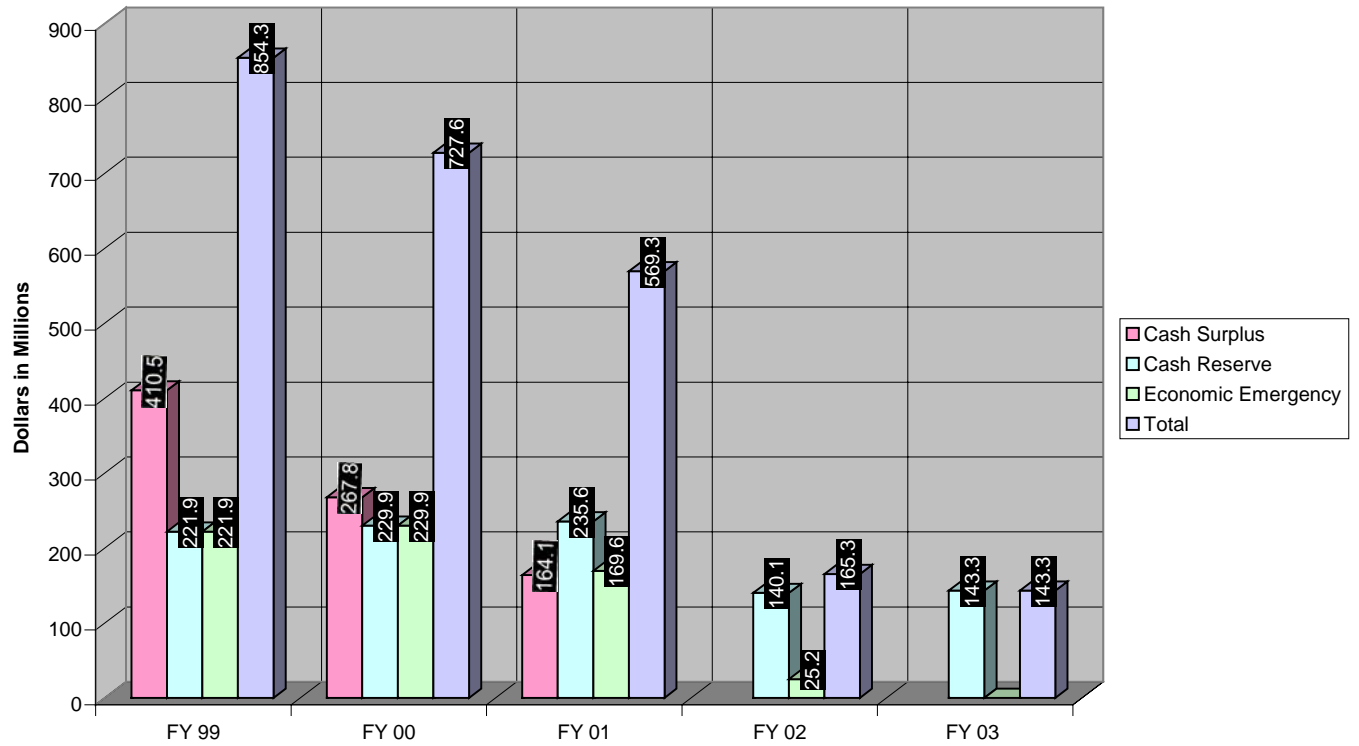
Sincerely,

A handwritten signature in black ink that reads "David A. Vaudt". The signature is written in a cursive, flowing style.

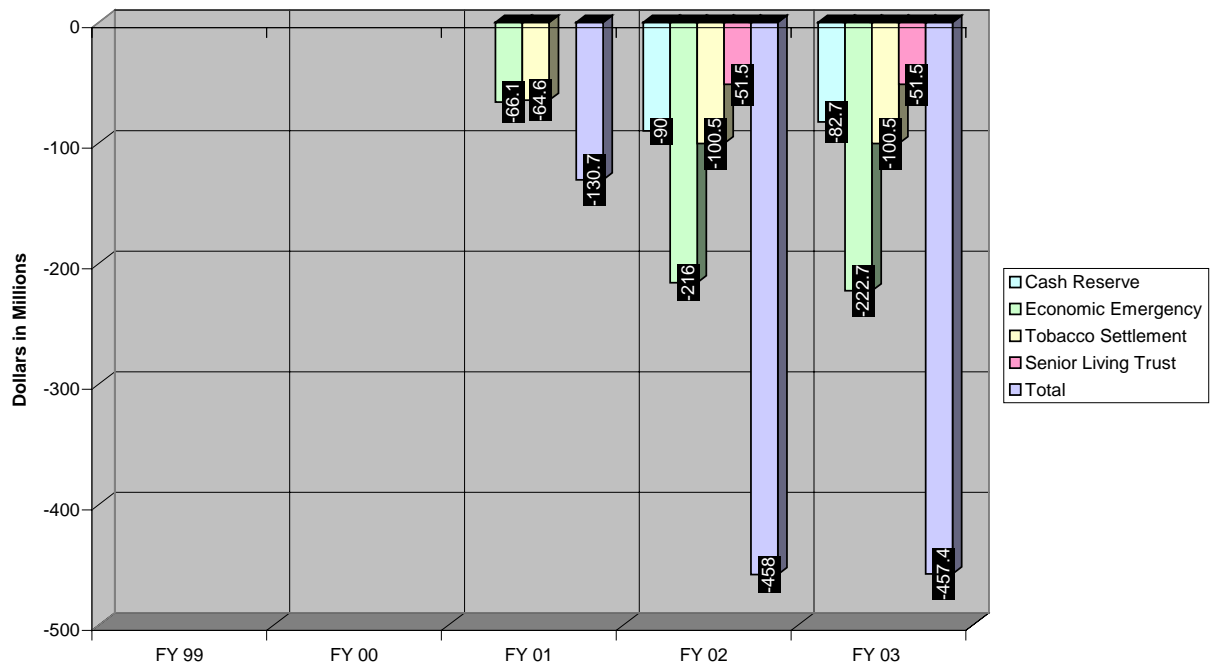
David A. Vaudt

cc: Senator Mary Kramer
Senator Stewart Iverson
Senator Michael Gronstal
Representative Christopher Rants
Representative Chuck Gipp
Representative Pat Murphy

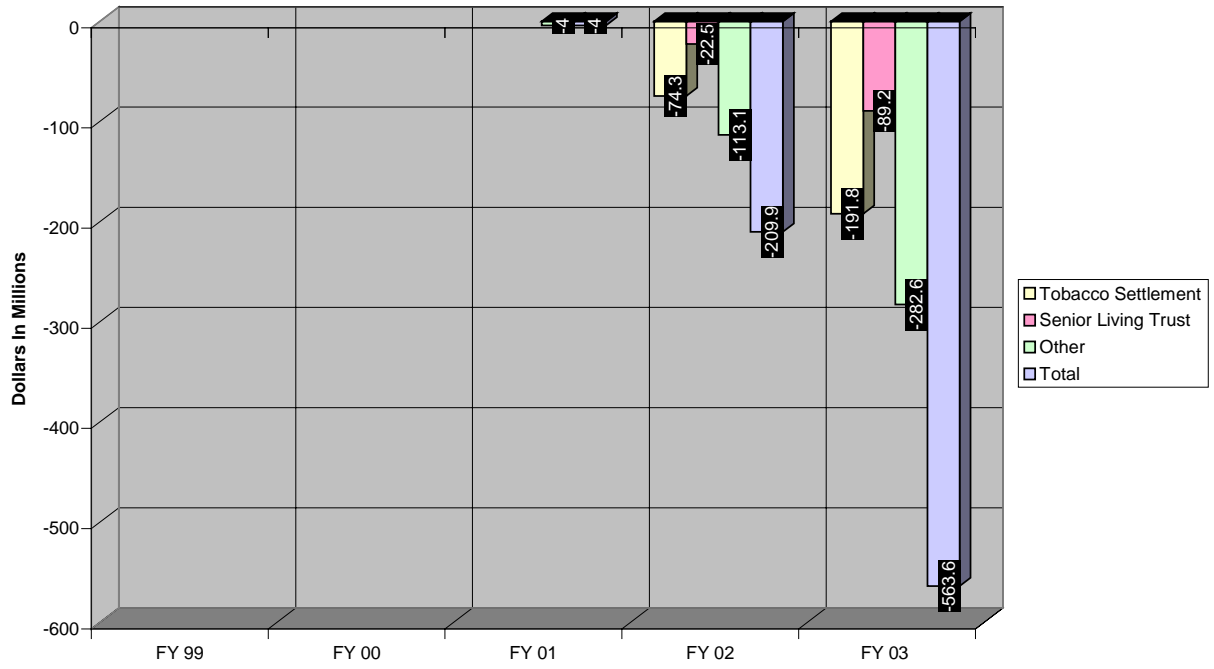
**State of Iowa
General Fund
Cash Surplus and Reserves**



**State of Iowa
General Fund
Statutorily Required Repayments**



State of Iowa
General Fund
Other Revenue Transfers & Expenditure Shifts



**State of Iowa
General Fund**

Summary of Revenue Transfers and Expenditure Shifts
Cumulative Amounts for Fiscal Years Ended June 30, 2001, 2002, and 2003
(Dollars in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Cumulative Revenues Transferred or Expenditures Shifted:			
Statutorily Required Repayment*:			
Cash Reserve Fund	\$ -	90.0	82.7
Economic Emergency Fund	66.1	216.0	222.7
Tobacco Settlement Trust Fund	64.6	100.5	100.5
Senior Living Trust Fund	-	51.5	51.5
Total	<u>\$ 130.7</u>	<u>458.0</u>	<u>457.4</u>
Repayment Not Addressed:			
Tobacco Settlement Trust Fund	\$ -	74.3	191.8
Senior Living Trust Fund	-	22.5	89.2
Other:			
Underground Storage Tank Fund	-	18.0	48.0
Environment First Fund	-	17.6	39.5
Rebuild Iowa Infrastructure Fund	-	9.8	31.2
Regents Demutualization	-	-	30.0
School Infrastructure Fund	-	-	22.0
Reserve Fund Interest	-	15.6	20.8
Hospital Trust Fund	-	7.0	19.0
Prison Infrastructure Fund	-	6.2	13.8
Insurance Premium Tax	-	-	10.0
Recreation Trails Fund	-	5.5	5.5
Ground Water Protection Fund	-	4.2	5.2
Waste Tire Fund	-	3.0	4.6
Vehicle Depreciation Fund	-	2.2	4.4
Enhanced Court Collections	4.0	4.0	4.0
Terminal Liability Fund	-	3.5	3.5
DED - Strategic Investment Fund	-	3.0	3.0
Title Guarantee Fund	-	-	2.7
DED - Physical Infrastructure Assistance Fund	-	2.5	2.5
TRANS Notes Interest	-	2.3	2.3
Risk Pool	-	1.5	1.5
Ag - Alternative Drainage Assistance Fund	-	1.1	1.1
Jury and Witness Fund	-	-	1.0
Brucellosis and Tuberculosis Fund	-	1.0	1.0
DNR - Snowmobile Fund	-	1.0	1.0
Victims Compensation Fund	-	1.0	1.0
All Terrain Vehicle Fund	-	0.8	0.8
DED - Value Added Agriculture Fund	-	0.3	0.3
Aviation Assistance Fund	-	0.3	0.3
Other Fund Transfers	-	1.7	2.6
Subtotal Other	<u>4.0</u>	<u>113.1</u>	<u>282.6</u>
Total	<u>\$ 4.0</u>	<u>209.9</u>	<u>563.6</u>

Source: Legislative Fiscal Bureau

*Based upon current law